

Free and Discounted Patient Services

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MinnesotaCare Tax Fact Sheet 5

Fact Sheet

This fact sheet explains how MinnesotaCare tax applies to free or discounted services provided to individuals (such as employees and their families, other professionals, or patients). For more information, read Revenue Notice 17-11, *MinnesotaCare -Fair Market Value of Patient Services Furnished at a Reduced Price or No Charge*.

Who is subject to MinnesotaCare tax?

Providers who furnish patient services in Minnesota must pay MinnesotaCare tax. For purposes of this fact sheet, the term “provider” refers to any of the following:

- A self-employed health care provider who is regulated or required to be regulated by the state of Minnesota
- An employer of a health care provider (such as a clinic, hospital, or surgical center)
- A person who is eligible for reimbursement under the Medical Assistance (MA) Program
- A person who sells or repairs hearing aids or prescription eyewear
- A staff model health plan company
- A licensed ambulance service

What is taxable?

Gross revenue you receive for providing patient services is subject to MinnesotaCare tax. Gross revenue includes the total amounts you receive – in money or other compensation – for providing services.

“Other compensation” means the fair market value in money of patient services provided when property, other services, or certain rights are given as payment instead of money. Common examples of items given instead of money include:

- Other health care services
- Non-health care services
- Goods, intangible items, or property
- The right to receive, use, access, or avoid goods, services, property, etc.

When you receive any of the above in return for providing free or discounted patient services, the fair market value (in money) of the patient services provided is subject to tax.

When You Are Paid in Goods or Services

If you receive goods or services (not money) in exchange for providing free or discounted patient services, the fair market value of the services you provide is taxable. Common examples include:

- Providing free or discounted services to employees and their families as part of an employee’s compensation package
- Providing free or discounted services to other professionals through professional discount agreements
- Bartering or trading patient services for goods or services

You must calculate the taxable fair market value (in money) of the services you provide. The taxable value in these cases depends on whether the patient service is reimbursed through insurance.

Services Reimbursed by Insurance

If the services are reimbursed through insurance, the total of all of the following amounts is taxable:

- The amount received from insurance
- Any deductibles, coinsurance, copayments, or other payments received
- Any amounts you waive (such as deductibles, coinsurance, copayments, etc.)

Example: You are a physician who provides a service to an employee and then bills the employee’s insurance. You receive an insurance payment of \$100 for the service. As part of the employee’s compensation package, you waive the employee’s \$30 copayment. The taxable amount of the discounted service is the full \$130.

Services not Reimbursed by Insurance

If the services are not reimbursed through insurance, the greater of the following amounts is taxable:

- The actual amount received for the service
- The lowest price you would receive for providing similar services, including deductibles, coinsurance, copayments, or other payments associated with the service

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To determine the lowest price you would receive for providing similar services, use the lowest price you would receive under a contract you have with an insurance company or health plan. The plan must be:

- open for enrollment in the year the service was provided
- a non-government plan
- negotiated with an unrelated party acting in its own best interests

Note: Generally, if you contract with an insurance company or a health plan, the lowest price is the amount allowed for a service. If you do not contract with an insurance company or health plan, the lowest price is the amount you would charge (as a standard rate or fee) for a similar service.

Example 1: You are a physician who provides free vaccinations each year to your employees and their family members. You are not reimbursed by insurance for providing the free services. The taxable amount for each vaccination is the lowest price you would receive for providing similar services.

Example 2: You are a chiropractor who provides discounted neck adjustments to an accountant. In return, the accountant prepares your business tax returns for free. The taxable amount for each discounted adjustment is the greater of the amount received from the accountant for the service or the lowest price you would receive for providing a similar service.

Example 3: You are a dentist who provides free and discounted services to your employees as part of their compensation package. You do not contract or negotiate with any insurance companies or health plans. The taxable amount for each free or discounted service is the lowest price you would charge (as a standard rate or fee) for providing a similar service.

Services to Employees Reimbursed by a Self-Insured Plan

A self-insured health plan (or self-funded plan) is a plan in which an employer assumes the financial risk for providing health insurance to its employees. Self-insured providers will typically set up a fund (with employer and employee contributions) to pay claims. They may also hire a third-party administrator to manage the plan.

If you are a provider who provides health care to your employees through a self-insured health plan, the taxable amount for services provided to your employees and others covered under the plan is the greater of:

- the total claims paid by the self-insured plan for services you provided, or
- the lowest price you would receive for providing similar services. To determine the lowest price, use the lowest price you would receive under a contract you have with an insurance company or health plan for non-employee patients. The plan must be open for enrollment in the year the service was provided, be a non-government plan, and negotiated with an unrelated party acting in its own best interests.

You must also include as taxable:

- Any deductibles, coinsurance, copayments, or other payments received
- Any amounts you waive (such as deductibles, coinsurance, copayments, etc.)

Example: You are a clinic that provides a self-insured health care plan for your employees as part of their compensation package. Your employee receives a service at the clinic and pays a \$25 copay. The claim for the service is \$200 and is paid through the self-insured plan. You do not waive any amount. The taxable amount is \$225.

When You Are Not Paid in Goods or Services

If you are paid (in money) for discounted patient services and you do not receive goods, services, etc., in exchange for the discounted services, the actual amount you receive is taxable. If you provided the services free of charge, there is no tax due.

Example 1: You are a physician who provides free services to patients for charity. You are not paid by another entity and do not receive compensation from the patients. There is no tax due on the services.

Example 2: You are an optometrist who provides an eye exam to a low-income patient. The patient only pays for part of the service and does not provide any other goods or services in return. Tax is due on the amount you actually receive from the patient.

Frequently Asked Questions

1. What is the taxable amount of a service when a patient receives a discount for paying with a specific type of funding (such as paying in cash or with a credit card)?

The amount actually received for the service.

2. Are services given by a self-employed provider to family members or friends subject to tax?

No. The services are not taxable, as long as the family members and friends do not provide goods or services in return.

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Summary Table

Use the table below as a guide when determining the taxable amount of free or discounted services you provide.

Did you receive goods or services in return?	Were you reimbursed by insurance?	MinnesotaCare tax is due on the:
Yes	Yes	Total of: <ul style="list-style-type: none"> • Insurance reimbursements • Deductibles, copayments, or coinsurance • Any other payments you either collect or waive
Yes	No	Greater of: <ul style="list-style-type: none"> • Actual amount you received • Lowest price you would receive for providing similar services
No	Yes	Actual amount you received (including the insurance reimbursement)
No	No	Actual amount you received

Self-Insured Plans for Employees

MinnesotaCare tax is due on the greater of:

- The total claims paid by the self-insured plan for services you provided to employees
- Lowest price you would receive for providing similar services to non-employee patients through insurance contracts you've negotiated

Also include:

- Deductibles, copayments, or coinsurance
- Any other payments you either collect or waive

Legal References

Minnesota Statutes 295.50

subdivision 3, Gross revenues

subdivision 4(a), Health care provider

Revenue Notices

Revenue Notice 17-11, MinnesotaCare -Fair Market Value of Patient Services Furnished at a Reduced Price or No Charge

Other MinnesotaCare Tax Fact Sheets

2, Chiropractors

3, Ambulance Services and Emergency Medical Providers